

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

)	
In the Matter of)	AMENDED
)	CONSENT ORDER
MCHENRY SAVINGS BANK)	
MCHENRY, ILLINOIS)	FDIC-12-360b
)	2012-DB-44
(ILLINOIS CHARTERED)	
INSURED SAVINGS BANK))	
)	

The Federal Deposit Insurance Corporation ("FDIC") and the State of Illinois Department of Financial and Professional Regulation ("IDFPR"), Division of Banking ("Division"), issued a CONSENT ORDER ("ORDER") against McHenry Savings Bank, McHenry, Illinois ("Bank") dated October 25, 2012.

The Bank, having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the additional unsafe or unsound banking practices alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and under Sections 9009, 9015, 9018, 11001, and 11002

of the Savings Bank Act ("SBA"), 205 ILCS 205/9009, 9015, 9018, 11001 and 11102, and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN AMENDED CONSENT ORDER ("STIPULATION") with representatives of the FDIC and the Division, dated April 14, 2015, whereby, solely for the purpose of this proceeding and without admitting or denying the additional charges of unsafe or unsound banking practices alleged relating to Liquidity and Sensitivity to Market Risk, the Bank consented to the issuance of an AMENDED CONSENT ORDER ("AMENDED ORDER") by the FDIC and the Division.

The FDIC and the Division considered the matter and determined that the requirements for issuance of an amendment to an order under 12 U.S.C. § 1818(b) and the SBA, 205 ILCS §§ 1001 et seq., have been satisfied. The FDIC and Division therefore accepted the STIPULATION and now HEREBY ORDER that the ORDER be and is hereby is amended to require the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), or in Sections 1007.05 and 11005 of the SBA, 205 ILCS §§ 1007.05 and 11005, and its successors and assigns, to take the following additional affirmative actions:

INTEREST RATE RISK MANAGEMENT

1. (a) Within 90 days from the effective date of this AMENDED ORDER, the Bank's board of directors ("Board") shall

develop modeling assumptions for all rate sensitive assets and liabilities (including but not limited to loans, securities, and non-maturity deposits) that are based upon robust documented support. The Board's review and development of the modeling assumptions required by this provision as well as any subsequent material changes made to key modeling assumptions during the life of this AMENDED ORDER shall be documented in the Board's minutes.

(b) At a minimum, the Board's review and development of modeling assumptions required by this paragraph should address the following:

- (i) Independent review of all key interest rate risk modeling assumptions (e.g. decay and discount rates for non-maturity deposits, and prepayment and discount rates for loans and securities).
- (ii) Require modeling of non-maturity deposits to consider the behavior of potentially volatile deposits, such as "surge" deposits, in a rising rate environment.
- (iii) Require non-parallel rate shocks that include "worst case" scenarios that would be unfavorable to the Bank's economic value of equity.

- (iv) Require correction of modeling errors identified in the joint FDIC/IDFPR October 21, 2014 visitation, including addressing the use of an inappropriate discount rate for interest and non-interest bearing checking accounts as well as addressing inaccurate reporting of fair value for equity investments.
- (v) Require that the Bank retain documentation for the interest rate risk management process, including but not limited to: the retention of data used to support key modeling assumptions, including non-maturity deposits, over several interest rate cycles; and, the retention of vendor reports and all supplemental schedules to support modeling assumptions.

(c) During the life of this AMENDED ORDER, the Board shall document in the Board minutes discussions of any strategy changes in managing interest rate risk and document its progress towards achieving the stated objectives. To evaluate whether the Bank is effectively implementing the Bank's interest rate risk management strategy, at a minimum, the Board shall perform the following on a quarterly basis:

- (i) Track the net changes in the volume of certificates of deposits and fixed and floating rate loans (segregated by maturity or repricing term).
- (ii) Identify and track changes in the volume of other rate sensitive assets or liabilities.
- (iii) Prepare a summary of any securities purchased or sold during the quarter, identifying any gains or losses on security sales.

(d) During the life of this AMENDED ORDER, the Bank shall provide training on the management and modeling of interest rate risk to Board members and Bank management and staff involved in interest rate risk management, including those individuals involved in the modeling of interest rate risk. Thereafter, and during the life of this AMENDED ORDER, the Bank shall provide, at a minimum, annual training to the individuals involved in interest rate management.

INTEREST RATE RISK AND LIQUIDITY POLICIES

2. (a) Within 60 days from the effective date of this AMENDED ORDER, the Bank's Board will revise, adopt, and implement its policy for managing interest rate risk and its policy for managing liquidity.

(b) The revisions to the Bank's interest rate risk and liquidity policies required by this paragraph shall be acceptable to the Regional Director and the Division and shall comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996) and the Funding and Liquidity Risk Management Interagency Guidance (April 5, 2010).

(c) At a minimum, the revisions to the Bank's interest rate risk and liquidity policies required by this paragraph should address the following:

- (i) Require non-parallel rate shocks that include "worst case" scenarios that are unfavorable to the Bank's economic value of equity and require the Bank to retain documentation of the rationale for its selection of the scenarios utilized.
- (ii) Require the Bank's Board to identify each source of potentially volatile funding (including, but not limited to brokered, special rate, and Internet deposits) and establish parameters to limit the Bank's reliance on these funding sources on both an individual and aggregate basis (as a percentage of total liabilities).

- (iii) Require that the Bank maintain detailed minutes of the Bank's Board meetings and ALCO and Investment Committee meetings, including any discussions of strategy, implementation of strategy, management assessment of and support for key modeling assumptions, and policy changes relating to interest rate risk and asset liability.
- (iv) Require retention of documentation supporting interest rate risk assumptions.
- (v) Require that any refusal to adopt recommendations arising from an independent review or audit be documented in the Board minutes with the supporting rationale and signed by each Board member.

INVESTMENT POLICY

3. (a) Within 60 days of the effective date of this AMENDED ORDER, the Bank's Board will adopt and implement a revised investment policy.

(b) The revisions to the Bank's investment policy required by this paragraph shall be acceptable to the Regional Director and the Division and shall comply with the FDIC's Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities (May 26, 1998).

(c) At a minimum, the revisions to the Bank's investment policy required by this paragraph should address the following:

- (i) Require pre-and post-purchase analysis for all security investment and derivatives purchases that considers credit risk, interest rate risk, and liquidity risk and require, at a minimum, quarterly performance reviews of the investment portfolio.
- (ii) Establish reasonable thresholds for purchasing various types of financial instruments to limit the Bank's exposure to excessive interest rate risk on a Bank-wide and individual security investment basis. The amended policy should define interest rate risk limitations in terms of both the total investment portfolio and Tier 1 capital exposure.

COMPLIANCE WITH POLICIES

4. (a) If after the amendment and submission of the policies required by paragraphs 2 and 3, the Bank is not immediately in compliance with the revised policies, the Bank shall provide to the Regional Director and Division a plan for achieving full compliance. The plan shall be submitted on or

before the dates required by paragraphs 2 and 3 and provide procedures for achieving full compliance with the policies no later than 180 days from the effective date of this AMENDED ORDER.

(b) Thereafter, the Bank shall operate within the parameters of its Interest Rate Risk, Liquidity, Investment, and Derivative policies and shall not adopt strategies or engage in activities that would result in noncompliance with any bank policies without obtaining regulatory approval 60 days in advance of any contemplated activity or change in business strategy.

REGULATORY REPORTING

5. (a) During the life of this AMENDED ORDER and within forty-five (45) days from the end of each calendar quarter, the Bank shall provide to the Regional Director and the Division written reports on the Bank's interest rate and liquidity risk exposure, including the effect of parallel and non-parallel rate shocks on the Bank's net income, net interest income, and capital, as well as reports that demonstrate the Bank's compliance with policy guidelines for liquidity and dependence on potentially volatile liabilities and track progress with the bank's interest rate risk strategy. The Bank shall also forward to the Regional Director and the Division copies of independent

reviews and audits that assess the Bank's interest rate and liquidity risk exposure, upon receipt.

(b) During the life of this AMENDED ORDER, the Bank will provide to the Regional Director and Division any other documentation or information needed to make an assessment of the Bank's asset liability management and exposure, relevant to interest rate risk and liquidity risk.

NOTIFICATION TO SHAREHOLDER

6. Following the effective date of this AMENDED ORDER, the Bank shall send to its shareholder a copy of this AMENDED ORDER: (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice of proxy statement preceding the Bank's next shareholder meeting.

PROGRESS REPORTS

7. Within thirty (30) days from the end of each calendar quarter following the effective date of this AMENDED ORDER, the Bank shall furnish to the Regional Director and Division written progress reports signed by each member of the Bank's Board, detailing the actions taken to secure compliance with the AMENDED ORDER and the results thereof.

CLOSING PARAGRAPHS

The effective date of this AMENDED ORDER shall be the date of its issuance by the FDIC and the Division.

The provisions of this AMENDED ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this AMENDED ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC and the Division.

Pursuant to delegated authority.

Dated: May 14, 2015.

/S/
M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

/S/
Michael J. Mannion
Director
Illinois Department of Financial
and Professional Regulation
Division of Banking